Paper-16: Advanced Financial Accounting & Reporting

Time Allowed: 3 Hours **Full Marks: 100**

The figures in the margin on the right side indicate full marks.

Working Notes should form part of the answer.

"Whenever necessary, suitable assumptions should be made and indicated in answer by the candidates."

Part A questions are compulsory. Attempt all of them

Part B has seven question. Attempt any five of them

Part A (25 marks)

1. **(a) (i) In a production process, normal waste is 5% of input. 5,000 units of input were put in process resulting in a wastage of 300 units. Cost per unit of input is ₹1,000. The entire quantity of waste is on at the year end. If waste has Nil realizable value. What is the cost per unit?**
A. ₹52,631.50
B. ₹1,052.63
C. ₹1000.00
D. ₹5012.63

Answer:

(i) – B.
In this case normal waste is 250 units and abnormal waste is 50 units.
The cost of 250 units will be included in determining the cost of inventories (finished goods) at the year – end. The cost of abnormal waste amounting to ₹ 52631.50 (50 units × ₹1,052.63) will be charged in the profit and loss account.
Cost per unit of input = 5,000 × 1,000/4,750 =₹1,052.63.

(ii) A company reports the following information regarding pension plan assets. Calculate the fair value of plan assets.

Particulars	**Amount** ₹
Fair Market value of plan assets (beginning of year)	**3,50,000**
Employer Contribution	**50,000**
Actual return on plan assets	**25,000**
Benefit payments to retirees	**20,000**

A. ₹4,05,000
B. ₹3,50,000
C. ₹4,25,000
D. ₹4,00,000

Answer:

(iii) –A.

Computation of fair value of plan assets:

Particulars	Amount ₹
Fair Market value of plan assets (beginning of year)	3,50,000
Employer Contribution	50,000
Actual return	25,000
Benefit payments	(20,000)
Fair market value of plan assets (end of year)	4,05,000

(iii) MS. Deepashree purchased 1000 shares in Spectrum Ltd. at ₹ 600 per share in 2011. There was a rights issue in 2014 at one share for every two held at price of ₹ 150 per share. If Ms. Deepashree subscribed to the rights, what would be carrying cost of 1,500 shares as per AS-13.

A. ₹ 6,00,000
B. ₹ 6,75,000
C. ₹ 7,00,000
D. Data insufficient

Answer:

(iii) - B

Cost of original holding (Purchase) (1000 x 600) = 6,00,000
Amount paid for Rights (500 x 150) = 75,000
Total carrying cost of 1500 shares: **₹6,75,000**

(iv) X Ltd. holds 51% of Y Ltd., Y Ltd. holds 51% of W Ltd., Z Ltd. holds 49% of W. Ltd. As per AS 18,

Related Parties are :

A. X Ltd., Y Ltd. & W Ltd.
B. X Ltd. & Z Ltd.
C. Y Ltd. & Z Ltd.
D. X Ltd. & Y Ltd. only

Answer:

(iv) - A

— X Ltd., Y Ltd., W Ltd.

X Ltd., YLtd. & W Ltd. are related to each other. Z Ltd. & W Ltd. are related to each other by virtue of an Associate relationship. However, neither X Ltd. nor Y Ltd. is related to Z Ltd. and vice versa.

(v) Umang Ltd. Ltd. has three segments namely A, B, C. The total assets of the Company are: Segment A ₹ 1.00 crore, Segment B ₹ 3.00 crores and Segment C ₹ 6.00 crores. Deferred tax assets included in the assets of each Segments are: A ₹ 0.50 crore, B ₹ 0.40 crore and C ₹ 0.30 crore. As per AS 17

A. A, B and C are reportable segments
B. Only A and B are reportable segments
C. Only A and C are reportable segments
D. Only C and B are reportable segments

Answer:

(v) — D.

According to AS 17 "Segment Reporting", Segment Assets do not include income tax assets.

Therefore, the revised total assets are 8.80 crores [10 crores - (0.50+0.40+0.30)].

Segment A holds total assets of 0.5 crore (1 crore – 0.50crore); Segment B holds 2.60 crores (3 crores – 0.40 crores); and Segment C holds 5.70 crores (6 crores – 0.30 crores). Thus, Only C and B hold more than 10% of the total assets and hence, only B and C are reportable segments.

(vi) Swift Ltd. has an asset, which is carried in the Balance Sheet on 31.3.2015 at ₹ 1,200 lakh. As at that date value in use is ₹ 800 lakh. If the net selling price is ₹ 900 lakh, Recoverable amount of the asset as per AS-28 will be

A. ₹ 900 lakh
B. ₹ 300 lakh
C. ₹ 100 lakh
D. None of (A), (B), (C)

Answer:

(vi) – A.

Recoverable amount is higher of Value in use ₹800 lakh and net selling price ₹900 lakh.

Recoverable amount = ₹900 lakh.

(vii) During 2014, Kumud Ltd. incurred costs to develop and produce a routine, low-risk computer software product, as follows:

Completion of detailed program design	**₹26,000**
Cost incurred for coding and testing to establish technological feasibility	**₹20,000**
Other coding costs after establishing technological feasibility	**₹48,000**
Other testing costs after establishing technological feasibility	**₹40,000**

What amount should be capitalized as software cost?

A. ₹46,000
B. ₹26,000
C. ₹88,000
D. ₹48,000

Answer:

(vii) – C.

Costs incurred after establishing technological feasibility should be capitalized i.e. (₹48,000+₹40,000)=₹88,000 is to capilised and costs incurred before establishing technological feasibility is to be expensed as and when it is incurred.

(viii) On 1-1-2014 Ashwin Ltd. has 188 equity shares outstanding. On 31-5-2014, it issued 600 equity shares for cash (without bonus claim). On 1-11-2014 it bought back 300 equity shares. Calculate the weighted average number of shares as on 31-12-2014?

A. 2100 shares
B. 2700 shares
C. 2400 sahres
D. None of the above

Answer:

(viii) – A.

Computation of weighted average number of shares as per AS-20 is as follows:

$$(1800\times\frac{5}{12})+(2400\times\frac{5}{12})+(2100\times\frac{2}{12})=2100 \text{ shares.}$$

(ix) PQR Ltd. acquire 40% of ABC Ltd.'s shares on April 2, 2014, the price paid was ₹ 70,000. ABC Ltd.'s Shareholder equity shares are as follows:

	₹
Equity Shares (Paid up)	**25,000**
Share premium	**75,000**
Retained Earning	**25,000**
	1,25,000

Further ABC Ltd. reported a net income of ₹ 15,000 and paid dividends of ₹ 5,000. PQR Ltd. has subsidiary on 31-03-2015. Calculate the amount at which the investment in ABC Ltd. should be shown in the consolidated Balance Sheet of PQR Ltd. as on 31.03.2015.

A. ₹54,000
B. ₹20,000
C. ₹74,000
D. ₹70,000

Answer:

(ix) – C.

As per AS – 23 when the investor company prepares the consolidated Balance Sheet, the investment in associate i.e., ABC Ltd. shall be carried by equity method and goodwill and capital reserve to be identified and disclosed.

Extract of Consolidated Balance Sheet of PQR Ltd. as on 31.03.2015

		₹
Investment in ABC Ltd.		
Associates	54,000	
Goodwill (Identified)	20,000	74,000

Value of the investment as per equity method ₹70,000 + 40% (₹15,000) – 40% (₹5,000)=₹74,000

Goodwill Identified = (₹70,000– 40% of ₹1,25,000) = ₹20,000.

(x) A&B Ltd. obtained a Loan from a bank for ₹ 240 lakhs on 30.04.2013. It was utilized for : Construction of a shed ₹ 120 lakhs, Purchase of a machinery ₹ 80 lakhs, Working

Capital ₹ 40 lakhs, Construction of shed was completed in March 2015. The machinery was installed on the same date. Delivery truck was not received. Total interest charged by the bank for the year ending 31.03.2015 was ₹ 36 lakhs. As per AS 16, Interest to be debited to Profit & Loss Account will be :
A. ₹ 36 lakhs
B. ₹ 18 lakhs
C. ₹ 9 lakhs
D. None of these

(x) – B

Qualifying Asset as per AS-16 = ₹ 100 lakhs (construction of a shed)
Borrowing cost to be capitalized = 36 × 120/240 = ₹ 18 lakhs
Interest to be debited to Profit or Loss account = ₹ (36 – 18) lakhs = ₹ 18 lakhs

(b) Mukta Ltd. has 60% shares in joint venture with Indra Ltd. Mukta Ltd. Sold a plant WDV of ₹80 lakhs for ₹100 lakhs. Calculate how much profit the Mukta Ltd. Should recognize in its book in case joint venture is

- **Jointly controlled operation**
- **Jointly controlled asset**
- **Jointly controlled entity** **[5]**

Answer:

As per AS – 27 (refer point 27.2) in case of jointly controlled operation and jointly controlled assets joint venture, the venture should recognize the profit to the extent of other venturer interest.
In the instant case, Mukta Ltd. should recognize profit of ₹(100 – 80) = ₹20 x 40/100 = ₹8 lakhs only.
However in case of jointly controlled entities Mukta Ltd. Should recognize full profit of ₹20 lakhs in its separate financial statements. However while preparing consolidated financial statements it should recognize the profit only to the extent of 40% i.e. 8 lakhs.

Part B (75 marks)

2.
As on 30th June, 2014 the draft balance sheets of the companies showed, the following position:

	R Ltd. ₹	K Ltd. ₹	C Ltd. ₹
Fixed assets	2,70,000	60,000	70,000
Investments at cost	3,20,000	1,50,000	10,000
	5,90,000	2,10,000	80,000
Current assets:			
Inventory	1,10,480	36,840	61,760
Trade Receivables	2,20,140	69,120	93,880
Balances at bank	2,62,580	16,540	52,610
	5,93,200	1,22,500	2,08,250
Less: Current liabilities:			
Trade payables	2,24,120	73,130	78,190
Taxation	60,000	—	22,000

Proposed dividends	**2,00,000**	**60,000**	**40,000**
	4,84,120	**1,33,130**	**1,40,190**
Net current assets / (liabilities)	**1,09,080**	**(10,630)**	**68,060**
	6,99,080	**1,99,370**	**1,48,060**
Financed by:			
Issued ordinary shares of ₹10 each	**4,00,000**	**1,50,000**	**80,000**
Capital reserve	**1,00,000**	**—**	**23,000**
Revenue reserve	**1,99,080**	**49,370**	**45,060**
	6,99,080	**1,99,370**	**1,48,060**

You also obtain the following information:

(i) K Ltd. acquired 6,800 shares in C Ltd. at ₹22 per share in 2011 when the balance on capital reserve was ₹15,000 and on revenue reserve ₹30,500 consolidated.

(ii) R Ltd. purchased 8,000 shares in K Ltd. in 2011 when the balance on the revenue reserve was ₹40,000. R Ltd. purchased a further 4,000 shares in K Ltd. in 2012 when the balance on the revenue reserve was ₹45,000. R Ltd. held no other investments on 30th June, 2014.

(iii) Proposed dividends from subsidiary companies are included in the figure for Trade Receivables in the accounts of the parent companies.

Prepare the consolidated balance sheet of R Ltd. and its subsidiaries as on 30th June, 2014, together with the consolidation schedules. [15]

Answer:

Consolidated Balance Sheet of R Ltd. as on 30th June, 2014

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	4,00,000
(b) Reserves and Surplus	2	3,20,584
(2) Minority Interest (W.N iv)		65,918
	3	3,75,440
	4	82,000
(3) Current Liabilities		2,18,000
(a) Trade Payables (2,24,120 + 73,130 + 78,190)		**14,61,942**
(c) Short term Provisions (60,000+22,000)		
(b) Other current liabilities		
Total		
	5	
		4,00,000
II. Assets		2,09,592
(1) Non-current assets		10,400
(a) Fixed assets		
(i) Tangible assets(2,70,000 + 60,000 + 70,000)		2,09,080
(ii) Intangible assets		3,01,140
(b) Non-current investment(W.N v)		3,31,730
(2) Current assets		**14,61,942**
(a) Inventories (1,10,480 + 36,840 + 61,760)		

(b) Trade Receivables(W.N vi)		
(c) Cash & Cash equivalents (2,62,580 + 16,540 + 52,610)		
Total		

Notes to Accounts

			₹
1.	**Share Capital**		
	40,000 equity shares of ₹10 each		4,00,000
2.	**Reserves and Surplus**		
	Revenue Reserve (1,99,080 + 16,064)	2,15,144	
	Capital reserve(1,00,000 + 5,440)	1,05,440	3,20,584
3.	**Short term provisions**		
	Provision for Taxation (60,000 + 22,000)		82,000
4.	**Other current liabilities**		
	Proposed Dividend*		
	Minority Shareholders	18,000	
	Holding Company	2,00,000	2,18,000
5.	**Intangible assets**		
	Goodwill (W.N iii)		2,09,592

* Proposed dividend is shown under current liability assuming that the dividend has already been declared.

Working Notes:

Analysis of profit

(i) C Ltd.

	Capital Profit ₹	Capital Reserve ₹	Revenue Reserve ₹
Capital Reserve in 2011	15,000		
Increase in Capital Reserve		8,000	
Revenue Reserve in 2011	30,500		
Increase in Revenue Reserve			14,560
	45,500	8,000	14,560
Minority Interest 15%	6,825	1,200	2,184
Share of K	38,675	6,800	12,376

(ii) K Ltd.

Revenue Reserve in 2011	40,000		
Increase in Revenue Reserve			9,370
Share in C Ltd,		6,800	12,376
	40,000	6,800	21,746
Minority interest (20%)	8,000	1,360	4,349
	32,000	5,440	17,397
Less: (5,000 x $\frac{4}{15}$) for second			

acquisition treated as capital	+1,333		-1,333
	33,333		16,064

(iii) Cost of Control / Goodwill

Cost of Investment in C	1,49,600	
Cost of Investment in k	3,20,000	
Less:		4,69,600
Paid up value of shares		
in C	68,000	
in K	1,20,000	
Capital profits in		
C	38,675	
K	33,333	
		2,60,008
Goodwill		2,09,592

(iv) Minority Interest

	(20%) K Ltd.	(15%) C Ltd.
Capital	30,000	12,000
Capital Reserve	1,360	1,200
Revenue Reserve	4,349	2,184
Capital Profit	8,000	6,825
	43,709	22,209

(v) Investment

K Limited	1,50,000	
Less: Cost of C Limited (6,800 x ₹ 22)	(1,49,600)	400
C Limited		10,000
		10,400

(vi) Trade Receivables

R Limited		2,20,140
Less: Dividend from K Limited		(48,000)
		1,72,140
K Limited	69,120	
Less: Dividend from C Limited	(34,000)	35,120
C Limited		93,880
		3,01,140

3. Given below are the summarized Balance Sheets of A Ltd. and T Ltd. as on 31.12.2014. T Ltd. was merged with A Ltd. with effect from 1.1.2015 and the merger was in the nature of purchase.

Summarised Balance Sheets as on 31.12.2014

Equity and Liabilities	A Ltd. ₹	T Ltd. ₹	Assets	A Ltd. ₹	T Ltd. ₹

Share Capital:			**Fixed Assets**	**9,50,000**	**4,00,000**
Equity Shares of ₹10 each	**7,00,000**	**2,50,000**	**Investments (Non-trade)**	**2,00,000**	**50,000**
General Reserve	**3,50,000**	**1,20,000**	**Inventory**	**1,20,000**	**50,000**
Surplus (P & L A/c)	**2,10,000**	**65,000**	**Trade receivables**	**75,000**	**80,000**
Export Profit Reserve	**70,000**	**40,000**	**Advance Tax**	**80,000**	**20,000**
12 % Debentures	**1,00,000**	**1,00,000**	**Cash & Bank Balances**	**2,75,000**	**1,30,000**
Trade payables	**30,000**	**55,000**			
Prov. for Taxation	**1,00,000**	**50,000**			
Proposed Dividend	**1,40,000**	**50,000**			
	17,00,000	**7,30,000**		**17,00,000**	**7,30,000**

A Ltd. would issue 12% Debentures to discharge the claims of the debenture holders of T Ltd. at par. Non-trade investments of A Ltd. fetched @25% while those of T Ltd. fetched @18%. Profit before of A Ltd. and T Ltd. during 2012, 2013 and 2014 and were as follows:

	A Ltd. ₹	**T Ltd.** ₹
2012	**5,25,000**	**1,50,000**
2013	**5,75,000**	**1,90,000**
2014	**6,25,000**	**2,00,000**

Goodwill may be calculated on the basis of capitalisation method taking 20% as normal rate of return for profit before tax. Purchase consideration is discharged by A Ltd. on the basis of intrinsic value per share. Prepare Balance Sheet of A Ltd. after merger. [15]

Answer:

Balance Sheet of A Ltd. (after merger with T Ltd.)

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	9,24,000
(b) Reserves and Surplus	2	13,50,960
(2) Non-Current Liabilities		
Long-term borrowings	3	2,00,000
(3) Current Liabilities		
(a) Trade payables	4	85,000
(b) Other Current Liabilities	5	2,90,000
Total		28,49,960
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
Tangible assets	6	13,50,000
Intangible assets (Goodwill) [WN1]		3,80,000
(b) Non-current Investments (2,00,000+,50,000)		2,50,000
(c) Other non-current assets	7	40,000
(2) Current assets		
(a) Inventories (1,20,000 + 50,000)		1,70,000
(b) Trade Receivables (75,000 + 80,000)		1,55,000
(c) Cash & Cash equivalents (2,75,000+1,30,000-40)		4,04,960
(d) Other current assets	8	1,00,000
Total		28,49,960

Notes to Accounts

		(₹)	(₹)
1.	**Share Capital**		
	92,400 Equity Shares of ₹10 each [70,000+22,400]		9,24,000
	(Of the above shares, 22,400 shares were issued to the vendors otherwise than cash)		
2.	**Reserves and surplus**		
	General Reserve	3,50,000	
	P&LA/c	2,10,000	
	Securities Premium [22,400 x [40.40-10]	6,80,960	
	Export profit reserve 70,000		
	Add: Balance of T Ltd. 40,000	1,10,000	13,50,960
3.	**Long Term Borrowings**		
	12% Debentures	1,00,000	
	Add: 12% debentures issued at par other than cash	1,00,000	2,00,000
4.	**Trade payables**		
	Trade payables	30,000	
	Add: Taken over	55,000	85,000
5.	**Other Current Liabilities**		
	Provision for Taxation 1,00,000		
	Add: Provision for Taxation of T Ltd. 50,000	1,50,000	
	Proposed dividend*	1,40,000	2,90,000
6.	**Tangible assets**		
	Fixed Assets	9,50,000	
	Add: Taken over	4,00,000	13,50,000
7.	**Other non-current assets**		
	Amalgamation Adjustment A/c [on a/c of export profit reserve]		40,000
8.	**Other current assets**		
	Advance Tax (80,000 + 20,000)		1,00,000

Working Notes

(1) Valuation of Goodwill

(i) Capital Employed

	₹	A Ltd. ₹	₹	T Ltd. ₹
-Assets as per Balance Sheet		17,00,000		7,30,000
Less: Non-trade Investment		(2,00,000)		(50,000)
Net Assets to be considered for G/W		15,00,000		6,80,000
Less: Liabilities				
12% Debentures	1,00,000		1,00,000	
Trade payables	30,000		55,000	
Provision for Taxation	1,00,000	(2,30,000)	50,000	(2,05,000)
Capital Employed		12,70,000		4,75,000

* It is assumed that the amount of proposed dividend has already been declared.

(ii) Average Profit Before Tax

		A Ltd. ₹		T Ltd. ₹

2011 2012 2013		5,25,000 5,75,000 6,25,000		1,50,000 1,90,000 2,00,000
		17,25,000		5,40,000
Simple Average Less: Non-trading income*		5,75,000 (50,000)		1,80,000 (9,000)
		5,25,000		1,71,000
(iii) Goodwill Capitalised value of average profit	$\frac{5,25,000}{20}$ x100	26,25,000	$\frac{1,71,000}{20}$ x100	8,55,000
Less. Capital Employed [From (i)above]		(12,70,000)		(4,75,000)
Goodwill		13,55,000		3,80,000

* For A Ltd. (2,00,000 @ 25 %) and T Ltd. (50,000 @ 18 %)

(2) Intrinsic Value per Share

		A Ltd. ₹		T Ltd. ₹
Goodwill [WN 1]	13,55,000		3,80,000	
Other Assets	17,00,000	30,55,000	7,30,000	11,10,000
Less: Liabilities				
12% Debentures	1,00,000		1,00,000	
Trade payables	30,000		55,000	
Provision for Tax	1,00,000	(2,30,000)	50,000	(2,05,000)
Net Assets		28,25,000		9,05,000
Intrinsic value per share [Net Assets / No. of Shares]		$\frac{28,25,000}{70,000}$ =₹ 40.40 (rounded off)		$\frac{9,05,000}{25,000}$ =₹ 36.20

(3) Purchase Consideration & discharge

Intrinsic Value of T Ltd. [a]	36.20 per share
No. of shares [b]	25,000
Purchase Consideration c= [a x b]	₹ 9,05,000
Intrinsic Value of A Ltd. [d]	₹ 40.40 per share
No. of shares to be issued [c / d]	22,400.99
No. of shares to be issued [rounded off]	22,400.00
Cash for fractions	₹ 40 [₹ 9,05,000-(22,400x40.40)]

4. (a) State the advantages of preparation of Value Added (VA) statements? [5]

Answer:

Various advantages of preparation of Value Added (VA) Statements are as under:

- Reporting on VA improves the attitude of employees towards their employing companies. This is because the VA statement reflects a broader view of the company's objectives and responsibilities.
- VA statement makes it easier for the company to introduce a productivity linked bonus scheme for employees based on VA. The employees may be given productivity bonus on the basis of VA / Payroll Ratio.
- VA based ratios (e.g. VA / Payroll, taxation / VA, VA / Sales etc.) are useful diagnostic and predictive tools. Trends in VA ratios, comparisons with other companies and international comparisons may be useful.
- VA provides a very good measure of the size and importance of a company. To use sales figure or capital employed figures as a basis for company's rankings can cause distortion. This is because sales may be inflated by large bought-in expenses or a capital-intensive company with a few employees may appear to be more important than a highly skilled labour–intensive company.
- VA statement links a company's financial accounts to national income. A company's VA indicates the company's contribution to national income.
- VA statement is built on the basic conceptual foundations which are currently accepted in balance sheets and income statements. Concepts such as going concern, matching, consistency and substance over form are equally applicable to VA statement.

4.(b) Informatio derived from the balance sheets of of Amrit Ltd. and its subsidiary Viidha Ltd. as on 31.3.2014 are as follows:

	Amrit Ltd. (₹)	**Vividha Ltd. (₹)**
Equity Share Capital (₹ 10 each)	**1,00,00,000**	**20,00,000**
Reserves and Surplus	**1,40,00,000**	**60,00,000**
Secured Loans	**40,00,000**	**–**
Current liabilities	**60,00,000**	**20,00,000**
	3,40,00,000	**1,00,00,000**
Fixed Assets	**1,20,00,000**	**35,00,000**
Investment in Vividha Ltd.	**7,40,000**	**–**
Sundry Debtors	**70,00,000**	**10,00,000**
Inventories	**60,00,000**	**50,00,000**
Cash and Bank	**82,60,000**	**5,00,000**
	3,40,00,000	**1,00,00,000**

Note : Secured loans are assumed to be of less than 12 months (ignoring interest)

Amrit Ltd. holds 76% of the paid up capital of Vividha Ltd. The balance shares in Vividha Ltd. are held by a foreign Collaborating Company. A memorandum of understanding has been entered into with the foreign company providing for the following.

a. **The shares held by the foreign company will be sold to Amrit Ltd. The price per share will be calculated by capitalising the yield at 16%. Yield, for this purpose, would mean 40% of the average of pre-tax profits for the last 3 years, which were ₹ 35 lakhs, ₹44 lakhs and ₹65 lakhs.**

b. **The actual cost of shares to the foreign company was ₹ 2,40,000 only. The profit that would accrue to them would be taxable at an average rate of 20%. The tax payable be deducted from the proceeds and Amrit Ltd. will pay it to the Government.**

c. **Out of the net consideration, 50% would be remitted to the foreign company immediately and the balance will be an unsecured loan repayable after one year. It was also decided that Amrit Ltd. would absorb Vividha Ltd. simultaneously by writing down the Fixed assets of Vividha Ltd. by 5%. The Balance sheet figures includes a sum of ₹1,50,000 due by Vividha Ltd. to Amrit Ltd.**

The entire arrangement was approved by all concerned for giving effect to on 1.4.2014. You are required to compute

(i) the purchase consideration,

(ii) discharge of purchase consideration

(iii) Cash and Bank Balances after absorption. [4+4+2]

Answer:

• Nature of Amalgamation - Purchase Method
• Method of Accounting - Purchase Method

Computation of Purchase consideration :

A. Yield of Vividha Ltd.

$$= \frac{(35+44+65)}{3} \times 40\% = ₹\ 19.20 \text{ Lakhs}$$

B. Price per share of Vividha Ltd.

(Figures in Lakhs)

Particulars	Amount (₹)
Yield of Vividha Ltd. (₹ in lakhs)	19.20
Capitalisation rate 16%	
Value of Vividha Ltd. (₹ in lakhs)	120.00
No. of Shares Outstanding (lakhs)	2.00
Price per share (₹) (120.00/20.00) (₹ 120 lakhs /2.00 lakh shares)	60

Purchase Consideration :

(₹ in Lakhs)

Particulars	Amount
Shares held by Foreign Collaborator (2,00,000 x 24%)	48,000 shares
Price per share	₹ 60/-
Purchase Consideration	**₹ 28,80,000**

Discharge of Purchase Consideration :

a. Tax Payable:

	(₹ in Lakhs)
Purchase Consideration	28.80

	Less: Cost of Acquisition	(2.40)
	Capital Gains	26.40
	Tax payable @ 20%	5.28
b.	Mode of payment of purchase consideration	
	Purchase Consideration	28.80
	Less: Income Tax payable	(5.28)
		23.52

₹23.52

To be remitted immediately 50% → ₹ 11.76

To be retained as Unsecured Loans 50% → ₹ 11.76

Computation of Cash and Bank Balances after absorption

Particulars	**₹ in Lakhs**
Balance in Amrit Ltd.	82.60
Cash and Bank Balance of Vividha Ltd.	5.00
Less : Remittance to Foreign Collaborating Company	(11.76)
Less : TDS paid	(5.28)
Cash and Bank balance	**70.56**

5. (a) State the disclosures to be made in relation to Provisions ,Contingent Liabilities and Contingent Assets (AS 29). [6]

Answer:

Disclosure to be made in relation to Provisions, Contingent Liabilities and Contingent Assets:

Disclosure of provisions in financial statements

Enterprise should disclose for each class of provision the following:

• Opening balance

• Addition to and use of the provision

• Unused amount written back

• Closing balance of the provision

Besides these the following other disclosures are required:

• A brief description of provision.

• Major assumption about future events made while measuring the provision and indication of uncertain items.

• The expected reimbursement recognized as an asset.

Disclosure of contingent liability : An enterprise should disclose for each class of contingent liability at the balance sheet date -

• A brief description of the nature of the contingent liability where practicable.

• An estimate of the amount as per measurement principles as prescribed for provision.

• Indications of the uncertainties relating to outflow.

• The possibility of any reimbursement.

• Where any of the information required as above is not disclosed because it is not practicable to do so, that fact should be stated.

An enterprise need not disclose of the disclosure requirement if disclosure of any of this information is expected to prejudice seriously the case of the enterprise in disputes with other party. However, it should be extremely rare case.

Disclosure of Contingent Assets:

Contingent assets are not required to disclosed in financial statement, generally Board of Directors report discloses such contingent assets.

(b) From the following information determine the amount of unrealized profit to be eliminated and the apportionment of the same. Om Ltd. holds 80% Equity shares of Shanti Ltd.

i. **Om Ltd. sold goods costing ₹15,00,000 to Shanti Ltd. at a profit of 25% on Cost Price. Entire stock were lying unsold as on the date of Balance Sheet.**

ii. **Again, Om Ltd. sold goods costing ₹13,50,000 on which it made a profit of 25% on Sale Price. 60% of the value of goods were included in closing stock of Shanti Ltd.**

iii. **Shanti Ltd. sold goods to Om Ltd. for ₹24,00,000 on which it made a profit of 20% on Cost . 40% of the value of goods were included in the closing stock of Om Ltd.**

[3×3=9]

Answer:

Situation I

Transaction	**Sale by Om Ltd. to Shanti Ltd.** **[Holding ⟶ Subsidiary]**
Nature of Transfer	**Downstream Transaction**
Profit on Transfer	Cost ₹15,00,000 × Profit on Cost i.e. 25% = ₹3,75,000
% of Stock included in Closing Stock	100%
Unlealised Profit to be eliminated i.e. to be transferred to the Stock Reserve	₹ 1,87,500 × 100% = ₹3,75,000
Share of Majority – Reduced from Group Reserve	₹ 1,87,500 × 100% = ₹3,75,000
Share of Minority	Unrealised Profit in case of a Downstream Transaction is fully adjusted against Group Reserves. Minority Interest is not relevant here.

Situation II

Transaction	**Sale by Om Ltd. to Shanti Ltd. [Holding ⟶ Subsidiary]**
Nature of Transfer	**Downstream Transaction**
Profit on Transfer	Cost ₹13,50,000 × Profit on Sale Price i.e.25% ÷ Cost on Sale i.e. 75% = ₹4,50,000
% of Stock included in Closing Stock	60%
Unlealised Profit to be eliminated i.e. to be transferred to the Stock Reserve	₹ 4,50,000 × 60% = ₹2,70,000
Share of Majority – Reduced from Group Reserve	100% × ₹2,70,000 = ₹2,70,000
Share of Minority	Unrealised Profit in case of a Downstream Transaction is fully adjusted against Group Reserves. Minority Interest is not relevant here.

Situation III

Transaction	**Sale by Shanti Ltd. to Om Ltd. [Subsidiary ⟶ Holding]**
Nature of Transfer	**Upstream Transaction**
Profit on Transfer	Sale ₹24,00,000 × Profit on Cost 20% ÷Sale to Cost 120% =₹4,00,000
% of Stock included in Closing Stock	40%
Unlealised Profit to be eliminated i.e to be reduced from Closing Stock	₹ 4,00,000 × 40% = ₹1,60,000
Share of Majority – Reduced from Group Reserve	Share of Majority i.e. 80% × Unrealised Profit ₹1,60,000 = ₹1,28,000
Share of Minority – Reduced from Minority Interest	Share of Majority i.e. 20% × Unrealised Profit ₹1,60,000 = ₹32,000

6. (a) From the following details, compute the total value of human resources of skilled and unskilled group of employees according to Lev and Schwartz (1971) model.

Particulars	Skilled	Unskilled
(i) Annual average earning of an employee till the retirement	₹60,000	₹40,000
(ii) Age of retirement	60 years	60 years
(iii) Discount rate	15%	15%
(iv) No. of employees in the group	30	40
(v) Average age	57 years	58 years

[8]

Answer:

Particulars	Skilled	Unskilled
1. Average Age	57 years	58 years
2. Age of Retirement	60 years	60 years
3. Remaining Period of employment	3 years	2 years
4. Annual Earnings / Employee	60,000	40,000
5. Annuity Factor at 15% for 3 / 2 Years	2.2832	1.6257
6. Value of Employees = Present Value of future earnings of employees = Annual Earnings x Annuity Factor		
(a) Skilled: (60,000 x Annuity Factor at 15% for 3 years)	**₹ 1,36,992**	
(b) Unskilled: (40,000 x Annuity Factor at 15% for 2 years)		**₹ 65,028**
7. No. of employees	**30**	**40**
8. Therefore, total Value of Human Resources	**₹ 41,09,760** (1,36,992 x 30 employees)	**₹ 26,01,120** (65,028 x 40 employees)

Total Value of Human Resources

Skilled	₹ 41,09,760
Unskilled	₹ 26,01,120
Total	**₹67,10,880**

(b) The Capital Structure of Nidhi Ltd is as under:

- **80,00,000 Equity Shares of ₹10 each = ₹ 800 Lakhs**
- **1,00,000 12% Preference Shares of ₹250 each = ₹250 Lakhs**
- **1,00,000 10% Debentures of ₹500 each = ₹500 Lakhs**
- **Term Loan from Bank (at 10%) = ₹450 Lakhs.**

The Company's Profit and Loss Account for the year showed a balance PAT of ₹100 lakhs, after appropriating Equity Dividend at 20%. The Company is in the 30% tax bracket. Treasury Bonds carry 6.5% interest and beta factor for the Company may be taken at 1.5. The long run market rate of return may be taken at 16.5%. Calculate EVA. [7]

Answer:

1. Profit and Loss Statement

Particulars	Computation	₹ in Lakhs
Profit before Interest and Taxes	**Balancing figure**	**509.29**
Less: Interest on Debentures	10% x ₹500 Lakhs	50.00
Interest on Bank Term Loan	10% x ₹450 Lakhs	45.00
Profit before Tax	(₹ 290.00 ÷ 70%)	414.29
Less: Tax at 40%	(₹ 290.00 ÷ 70%) x 30%	124.29
Profit after Tax	**Reverse working**	290.00
Less: Preference Dividend	12% x ₹250 Lakhs	30.00
Residual Earnings for Equity Shareholders	**Reverse working**	260.00
Less: Equity Dividend	20% x ₹ 800 Lakhs	160.00

Net Balance in P & L Account		**Given**	100.00

2. Computation of Cost of Equity: K_e = Risk Free Rate + Beta × (Market Rate - Risk Free Rate)
= 6.5% + [1.5 (16.5% - 6.5%)] = 21.5%.

3. Computation of WACC:

Component	Amount	Ratio	Individual Cost	WACC
Equity	₹ 800 Lakhs	800 ÷2000 = 40.0%	**K_e =** 21.5%	8.60%
Preference	₹ 250 Lakhs	250 ÷ 2000 = 12.5%	**K_p =** 12%	1.50%
Debt	₹ 950 Lakhs	950 ÷ 2000 = 47.5%	K_d = Interest x (100 - Tax Rate) = 10% x (100% - 30%) = 7%	3.33%
Total	**₹ 2,000 Lakhs**		**K_o =**	**13.43%**

4. Computation of EVA:

Particulars	**₹ Lakhs**
Profit before Interest and Taxes (from WN 1) Less: Tax (as computed above)	509.29 124.29
Net Operating Profit After Taxes i.e. Return to Providers of Capital **Less:** Capital Charge (Fair Return to providers of Capital)	385.00 2,000 x 13.43% = 268.60
Economic Value Added	**116.40**

7. (a) Mr. Investor buys a stock option of ABC Co. Ltd. in July, 2014 with a strike price on 30.07.2014 of ₹ 250 to be expired on 30.08.2014. The premium is ₹ 20 per unit and the market lot is 100. The margin to be paid is ₹ 120 per unit.
Show the accounting treatment in the books of Buyer when:
(i) the option is settled by delivery of the asset, and
(ii) the option is settled in cash and the index price is ₹260 per unit. [9]

Answer:

Accounting entries in the books of buyer

2014		At the time of inception	₹	₹
July		Stock option premium A/c Dr.	2,000	
		To Bank A/c		2,000
		(Being premium paid to buy a stock option)		
		Deposit for margin money A/c Dr.	12,000	
		To Bank A/c		12,000
		(Being margin money paid on stock option)		
		At the time of settlement		
August	(i)	Option is settled by delivery of the asset		
		Shares of ABC Ltd. A/c Dr.	25,000	
		To Deposit for margin money A/c		12,000
		To Bank A/c		13,000
		(Being option exercised and shares acquired, ₹ 12,000 margin money adjusted and the balance amount was paid)		
		Profit and loss A/c Dr.	2,000	

		To Stock option premium A/c		2,000
		(Being the premium transferred to Profit And Loss Account on exercise of option)		
	(ii)	Option is settled in cash		
		Profit and loss A/c Dr.	2,000	
		To Stock option premium A/c		2,000
		(Being the premium transferred to Profit And Loss Account)		
		Bank A/c (₹ 100 × 10) Dr.	1,000	
		To Profit and loss A/c		1,000
		(Being profit on exercise of option)		
		Bank A/c Dr.	12,000	
		To Deposit for margin money A/c		12,000
		(Being margin on equity stock option received back on exercise of option)		

(b) What is a "Grant Date" as per IFRS-2. Mention the vesting conditions. [6]

Answer:

"Grant Date" is the date at which the entity and the employee (or other party providing similar services) agree to share based payment arrangement signifying by shared understanding of the terms and conditions of stock option. The term 'agree' is used in usual sense - there must be 'offer' and ' acceptance'. Therefore, the date on which the entity makes the offer becomes the grant date as 'acceptance' is either by explicit arrangement to which the employees have already agreed to implicit evidenced by commencement of their work.
Vesting Conditions:
These are conditions which are to be satisfied by the counterparty to be entitled to receive cash, other assets or equity instruments of the entity under share based payment arrangement.
Examples of vesting conditions:
(i) service condition- an employee should complete a minimum period of service from the grant date;
(ii) performance condition - an employee should achieve a specified sales target or profit target.
However, no vesting condition other than market condition should be taken into account for the purpose of determining fair value of stock option.

8. Write short notes on any three of the following: [5x3=15]
(a) Process of election of Public Accounts Committee;

Answer:

Process of election of Public Accounts Committee:

The Committee on Public Accounts is constituted by Parliament each year for examination of accounts showing the appropriation of sums granted by Parliament for expenditure of Government of India, the annual Finance Accounts of Government of India, and such other Accounts laid before Parliament as the Committee may deem fit such as accounts of autonomous and semi-autonomous bodies (except those of Public Undertakings and Government Companies which come under the purview of the Committee on Public Undertakings).

The Committee consists of not more than 22 members comprising 15 members elected by Lok Sabha every year from amongst its members according to the principle of proportional representation by means of single transferable vote and not more than 7 members of Rajya Sabha elected by that House in like manner are associated with the Committee. The Chairman is appointed by the Speaker from amongst its members of Lok Sabha. The Speaker, for the first time, appointed a member of the Opposition as the Chairman of the Committee for 1967-68. This practice has been continued since then. A Minister is not eligible to be elected as a member of the Committee. If a member after his election to the Committee is appointed a Minister, he ceases to be a member of the Committee from the date of such appointment.

(b) Roles of Public Accounts Committee;

Answer:

Roles of Public Accounts Committee:

The role of the Public Accounts Committee is to assess the integrity, economy, efficiency and effectiveness of government financial management. It achieves this by:

- examining Government financial documents; and
- considering the reports of the Auditor - General.

A significant amount of the committee's work involves following up matters raised in the reports to Parliament by the Auditor - General. This ensures that public sector financial issues are scrutinised for the benefit of the Parliament and the public.

While scrutinising the Appropriation Accounts of the Government of India and the Reports of the Comptroller and Auditor General thereon, it is the duty of the Committee to satisfy itself—

- that the moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged;
- that the expenditure conforms to the authority which governs it; and
- that every re-appropriation has been made in accordance with the provisions made in this behalf under rules framed by competent authority.

An important function of the Committee is to ascertain that money granted by Parliament has been spent by Government "within the scope of the demand". The functions of the Committee extend "beyond the formality of expenditure to its wisdom, faithfulness and economy". The Committee thus examines cases involving losses, nugatory expenditure and financial irregularities.

It is also the duty of the PAC to examine the statement of accounts of autonomous and semi-autonomous bodies, the audit of which is conducted by the Comptroller & Auditor General either under the directions of the President or by a Statute of Parliament.

(c) Differences between the GAAP and IFRS with regards to Cash Flow Statement;

Answer:

Differences between the GAAP and IFRS with regards to Cash Flow Statement

Indian GAAP	IFRS
Mandatory for listed companies and those companies which fall in the category of Level-1 corporate entities.	Mandatory for all entities preparing their financial statements in accordance with IFRS as it is a component of a complete set of financial statements.
AS 3 permits use of "Direct" or "Indirect" method. However, SEBI mandates listed companies to present cash flows from operating activities in a cash flow statement according to the "indirect method" only.	Cash flow from operating activities may be presented using either direct or indirect method. However, IAS 7 encourages entities to report cash flows from operating activities using the direct method.
There is no specific guidance on treatment of bank overdraft by AS 3. In general, bank overdrafts are' treated as financing activities in cash flow statement. However, demand deposits with bank are treated as cash.	Bank borrowings are normally treated as part of financing activities. However, bank overdrafts that are repayable on demand and that form an integral part of an entity's cash management are treated as cash equivalents under IAS 7".
As per AS 3, interest and dividend paid are treated as cash outflow under financing activities and interest and dividend received are treated as cash inflow from investing activities. AS 3 does not provide any option with regard to classification of interest paid or received.	Under IAS 7, interest and dividend, whether received or paid, may be classified as operating or financing activities dependent upon classification which reflects the economic nature of transactions and in a manner consistent from period to period.
In AS 3, the cash flows associated with extraordinary items may be classified as arising from operating, investing or financing activities as appropriate and will be disclosed separately.	IFRS does not classify any item as extraordinary item. Hence, no provision related to cash flows from extra-ordinary item has been discussed in IAS 7.

(b) Differentiate the following items with reference to 'Accounting Standards' (AS applicable in India) and International Financial Reporting Standards (IFRS):

(i) Extra ordinary items

(ii) Contingencies.

Answer:

Accounting Standards applicable in India	International Financial Reporting Standards
Extraordinary Items	
Events or transactions, clearly distinct from the ordinary activities of the entity, which are not expected to recur frequently and regularly, are termed as extra-ordinary items. Disclosure of the nature and amount of such item is required in the income statement to perceive the impact of	IAS 1 prohibits presentation of any items of income or expense as extraordinary.

current and future profits.	
Contingencies	
Contingent Liabilities are disclosed unless the probability of outflow is remote. Contingent gains are neither recognized nor disclosed.	Unrecognized possible losses and possible gains are disclosed.